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ANNUAL
REPORT
1974

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CORPORATION FILE

Centran
Corporation

Centran Corporation

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

800 Superior Avenue, Cleveland, Ohio 44114
Telephone: (216) 687-1200
Telex: 885-664

Centran Corporation is a diversified financial holding company with assets exceeding $2 billion. It is comprised of five bank affiliates and five consumer finance affiliates with 125 offices in 14 states. Through the International Department of its lead bank, Central National, Centran has Representative offices in London, Paris, Mexico City, an Edge Act Bank in New York City, an investment in a French Merchant Bank, and a branch in Nassau, The Bahamas.

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Capital Stock:
Centran Corporation's Common Stock is traded Over-the-Counter and is included in the NASDAQ system under the symbol, "CENB." Price quotations appear in the National List.
The Corporation's Preferred Stock is not publicly traded.

Annual Meeting:
Centran Corporation's Annual Meeting of Shareholders will be held Tuesday, April 1, 1975, beginning at 9:30 a.m. in the East Ballroom of the Hollenden House Hotel, 610 Superior Avenue, in downtown Cleveland.

Transfer Agent:
Central National Bank of Cleveland
800 Superior Avenue
Cleveland, Ohio 44114

Co-Transfer Agent:
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Certified Public Accountants:
Ernst & Ernst
1300 Union Commerce Building
Cleveland, Ohio 44115

1974 HIGHLIGHTS

For the Year	1974	1973
Income Before Security Transactions	$ 14,897,000	$ 12,482,000
Securities Gains Net of Taxes	32,000	122,000
Net Income	14,929,000	12,604,000
Return on Common Shareholders' Equity:		
Income Before Security Transactions	12.64%	11.43%
Net Income	12.67	11.55
Average Common Shares Outstanding	3,836,639	3,815,640
Per Common Share		
Income Before Security Transactions	$ 3.85	$ 3.27
Securities Gains Net of Taxes	.01	.03
Net Income	3.86	3.30
Cash Dividends Declared	1.70	1.70
Shareholders' Equity	31.22	29.27
At Year-End		
Total Assets	$2,157,555,000	$2,014,852,000
Total Deposits	1,677,433,000	1,616,112,000
Total Loans	1,333,955,000	1,213,994,000
Common Shares Outstanding	3,836,639	3,836,639
Common Shareholders	11,879	11,783
Employees	2,561	2,450

LETTER TO SHAREHOLDERS

I am pleased to report that Centran Corporation achieved record earnings in 1974. Net income per common share increased 17 percent to $3.86 per share from $3.30 in 1973. For the three-year period ended December 31, 1974, Centran's net income per common share has grown at a compound annual rate of 12 percent.

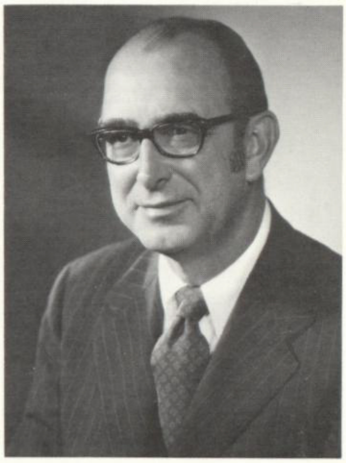
Net income for 1974 was $14.9 million compared with $12.6 million in 1973.

The principal factor in Centran's improved earnings in 1974 was the increase in interest differential—the excess of interest income earned on loans and securities over interest paid on deposits and borrowings. The interest differential was $63,315,000 in 1974, 27 percent higher than the differential achieved in 1973. A more complete discussion of the subject is found in the Financial Review on page 11.

At December 31, 1974, Centran's total assets were $2,157,555,000. Total deposits were $1,677,433,000, and total loans were $1,333,955,000.

Total shareholders' equity increased by $9.7 million to $122 million at December 31, 1974. Return on average common shareholders' equity rose to 12.67 percent from 11.55 percent in 1973. During the year, dividends of $1.70 per share were paid to holders of common stock. In total, dividends declared on common and preferred shares amounted to $6.6 million and were equivalent to 44 percent of net income.

Many have characterized 1974 as a turbulent year with the combined forces of inflation and recession buffeting our economy. Considering the magnitude of the problems encountered, we must conclude that our economic and political systems have demonstrated great resiliency.



We suggest that caution must be exercised in seeking increased government intervention as the solution to our present economic problems. Excesses in either fiscal or regulatory actions could further disturb the delicate balance which must be maintained between the public and private sectors. The free enterprise system has demonstrated its ability to contribute to the nation's economic well-being when not constrained by excessive regulation nor by overly stimulative fiscal policies.

As we progress into the uncertainties of 1975, Centran's management will continue to maintain high standards of liquidity and operate from a strong capital base as we seek to translate our corporate objectives into reality.

As in the past, future opportunities for growth will be pursued within an overall corporate philosophy which emphasizes professionalism in management, increased productivity of staff members, and the provision of quality financial services to our customers.

John A. Gelbach
Chairman and Chief Executive Officer

March 4, 1975

Centran
Corporation

Centran
Corporation
Central Bank
Centran Bank
Richland Bank
Farmers Bank
Sutton Bank
Colonial Financial Services
Gordon Financial Services
Major Financial Services
Peoples Financial Services
Protective Financial Services
Any bank will work hard for an $800 million company like Time Inc. Central worked hard for Time when they had only $1970.16 in the bank.
Centran Corporation reports fourth-quarter and year-end performance.
feeling bounced around by your present bank?
SAVE BEYOND YOUR MEANS.
7½%
Savings at Central National Bank.
Call us by our new name...
Centran Bank
Update. Centran Corporation reports six-month performance and recent activities.
It's a nice place to do business.
The American Bank is now Centran Bank of Akron
GET A $100 REBATE FOR FINANCING YOUR NEW CAR THROUGH CENTRAL BANK.
VACATION LOANS!
Hey, Akron!
Centran

CORPORATE ACTIVITIES

Centran Corporation was organized as a financial holding company late in 1971 under the leadership of Central National Bank of Cleveland. The holding company organizational structure was adopted to increase earnings potential through geographic and functional diversification not available to an individually chartered commercial bank.

Initially, Centran consisted of two affiliates, Central National Bank and American Bank of Commerce, Akron, Ohio. These affiliates were joined by Mid-Ohio Banc-Shares in mid-1972. This holding company owned The Richland Trust Company, Mansfield; The Farmers & Savings Bank, Loudonville; and The Sutton State Bank, Attica.

In keeping with its objective to enhance potential earnings through geographic and functional diversification, Centran entered the consumer finance field in 1973 with the acquisition of Peoples Investment Company, Louisville, Kentucky, and Major Finance Corporation, Silver Spring, Maryland. Centran then established Colonial Financial Service Inc., with headquarters in Birmingham, Alabama.

Ben Gordon Finance Company, Inc., Houston, Texas, and Protective Loan Corporation, Albany, New York, were acquired during 1974. Centran is now comprised of five bank affiliates and five finance company affiliates operating 125 offices in 14 states in addition to international facilities.

Although the affiliates' executives manage their day-to-day activities autonomously, Centran's management coordinates their planning to ensure that all efforts are directed toward the attainment of the over-all corporate objectives.

These objectives include the strengthening of Centran's competitive position in the marketplace and increasing productivity and profitability. Emphasis has been placed on the development and utilization of better planning techniques, aggressive marketing, and the development and implementation of new systems for greater operating efficiency and management control.

We have long regarded planning as essential to the effective management of our Corporation. This function, however, has taken on a critical dimension as the world continues to change at an accelerating rate. Management no longer has the luxury of making decisions to resolve only current problems. With the future impinging so rapidly upon the present, every decision must be weighed for its potential impact on the conditions of tomorrow as well as today. Through the application of refined planning techniques, management can identify and prepare for the opportunities presented by change rather than simply reacting to it.

The corporate planning effort continues to be emphasized at all levels of management. Major planning projects are identified throughout the Corporation and formulated into an integrated planning process so essential in a holding company environment.

Of particular importance to the planning process during the remaining years of the 70's will be an increasingly sophisticated system of asset and liability management. The over-all goal of "funds management" at Centran is not unique with the Corporation, but management has committed significant resources to see that goals are translated into reality. We expect funds management to contribute toward our goal of a consistently high rate of growth in earnings per share, while maintaining high standards of liquidity within the Corporation and operating from a strong capital base.

More specifically, with money costs running well over 60% of total costs for our principal banking affiliates, purchased funds must be acquired in the right amounts, at the right time, in the right maturities, and in the right mix to hold the cost of funds to a minimum over the interest rate cycle. The asset mix into which these funds are invested will reflect both earnings and liquidity goals, with proper pricing of our earning assets receiving the constant attention of senior officials. Spread management during the remaining years of the seventies is the path to earnings progress. Management is devoted to assuring the proper balance between interest-sensitive assets, on the one hand, and interest-sensitive liabilities, on the other. Such a balance is an absolute prerequisite to sustained earnings growth over the interest rate cycle.

While Centran's affiliates conduct a wide range of marketing programs directed at the many and diverse segments of the financial market they serve, our efforts began to reflect Centran's cohesiveness with the implementation of a corporate identity system in 1974.

Continued

Corporate Activities *(Continued)*

The system builds a closer identity among all Centran affiliates and the parent corporation. Through graphic uniformity of logotype styles, appropriate "tag lines" such as, "A Centran Company" or "A Centran Bank," and, in some cases, direct name changes, each affiliate is identified with Centran. For example, the American Bank of Commerce changed its legal name to Centran Bank of Akron and adopted the graphic style used throughout the holding company. Central National Bank retained its legal name, but is utilizing an abbreviated communicative name—Central Bank—in the uniform graphic style of the identity system.

As depicted in the accompanying photographs, this system establishes a "family" relationship and is being applied to advertising materials, office signage, stationery, forms, and publications utilized by all affiliates. In most instances, the system is being phased in as existing materials need to be replenished or replaced to avoid the expense of total conversion at one point in time.

The new corporate identity is now appearing in a series of "Business Bank" advertisements in major business-oriented publications to demonstrate our domestic and international commercial banking expertise. The four-color, full-page ads feature case histories of the various corporate banking services provided to specific companies.

Additional support to our sales effort was provided through a series of international business symposiums conducted in key Ohio cities. The International Department's foreign representatives were brought to the United States to join with specialists here in presenting a timely report on worldwide business and economic conditions to business leaders in each city. The symposiums were so well received by businessmen and news media representatives in each of the cities that the program will be expanded to cover additional cities in 1975.

During 1974, Centran continued to develop and implement systems designed to improve our services and reduce costs. Our finance companies, for example, now are processing loan documentation and records through an on-line computer system. Terminals in offices of the finance companies and Centran's headquarters are linked to a central computer which stores, processes, and retrieves information as needed for the automatic preparation of statements and financial reports.

Additional new data processing systems have been designed and implemented to provide improved management information and profitability analysis for Corporate Banking and Personal Trust. Further, systems refinements were developed for improving the sale of deposit concentration and cash mobilization services. Data processing sales to banks have been considerably enhanced by the introduction of PROFIT, an integrated accounting and customer information system.

While keeping pace with the technological side of our business, Centran's management recognizes that it has a continuing obligation to participate in the fulfillment of the human needs of society. Our affiliates contribute time and resources to activities for the betterment of their respective communities and those who live there by participating in community organizations, and supporting numerous civic, charitable, educational, and cultural institutions.

In so doing, Centran is contributing to the future growth and prosperity of the communities we serve and are dependent upon for our continued growth and profitability.

COMMERCIAL BANKING

Although interest rates reached record levels in 1974, the demand for commercial loans remained strong throughout the year and contributed significantly to Centran's earnings growth.

Commercial loans of all types averaged $775 million in 1974 as compared with $685 million in 1973. This reflects an increase in both foreign and domestic loans.

The majority of domestic commercial loans were to companies within the bank affiliates' primary service areas. Loans were widely dispersed among business and industry contributing to the regional economy, which is highly-industrialized and strongly oriented toward the manufacturing of capital goods.

Centran's largest affiliate, Central Bank, reported loans outstanding in all of the Federal Reserve Board's major industry classifications at the end of 1974. The greatest concentration in any single industry classification amounted to 12 percent of total loans. A geographical analysis of Central's average domestic commercial loans outstanding during the fourth quarter of 1974 shows that its primary lending emphasis continues to be centered in the region it serves. Yet, approximately 20 percent of the loans were diversified among major markets elsewhere in the nation.

With the continuing expansion of world trade, the industrial complex in which we are centered has a growing need for international as well as domestic banking services. Central's International Department, which serves all bank affiliates, has developed a knowledgeable and experienced staff that has brought us recognition as the leading international banking institution in Ohio. During the past year, this staff has traveled to more than 60 countries in all parts of the world.

By the end of 1974, the International Department's London and Mexico City representative offices had completed their first full year of operation and were making important contributions to its activities. Central Cleveland International Bank, an Edge Act subsidiary in New York City, completed its fourth year with a substantial increase in operating earnings. Central Cleveland was relocated early in 1974 to 55 Broad Street where it occupies an entire floor in the heart of the city's financial district.

At year end, the department's portfolio of international loans and letters of credit was diversified throughout six continents. Export and import financing amounted to approximately 35 percent of the portfolio. Generally, the export financing is guaranteed through agencies of the Federal government, principally The Export-Import Bank. Approximately 27 percent of the portfolio was comprised of loans to foreign banks; and loans to foreign governments amounted to 16 percent. The remaining 22 percent consisted of loans to foreign companies and foreign subsidiaries of United States companies.

The International Department is continuing to concentrate its efforts on export financing for U.S.-based companies and on the expansion of lending to foreign subsidiaries of domestic companies.

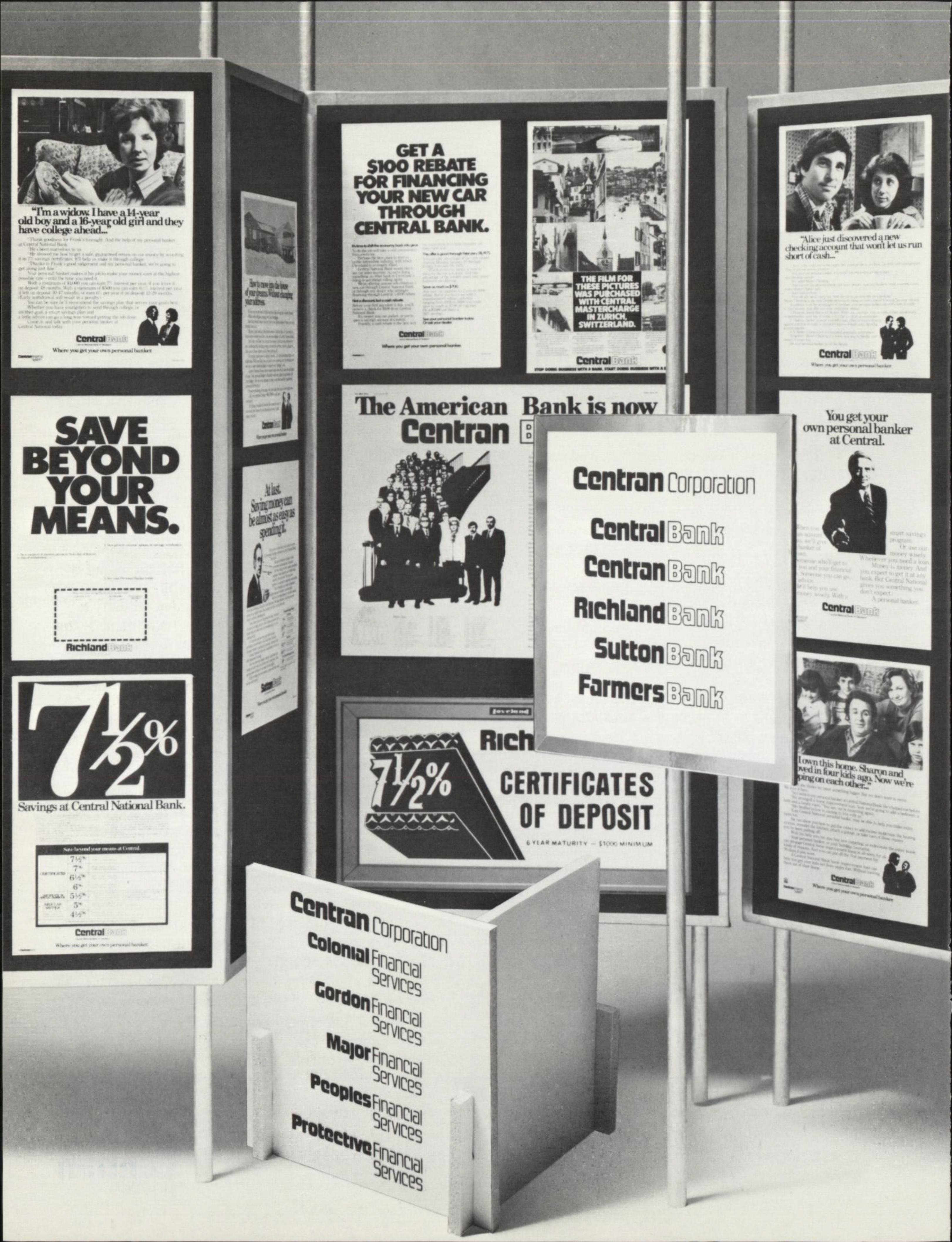
The International Department is continuing to promote its capability through participation in Cleveland's World Trade Week, the quarterly publication of an "International Report" covering the significance of Ohio's major industries to world trade, and the conduct of an International Symposium in key cities throughout the state. The symposium for business leaders features reports by the department's foreign representatives and staff, who are brought together to provide observations and information on business and economic conditions throughout the world.

In addition to domestic and foreign lending, Centran's commercial banking activities include correspondent banking and corporate trust services as well as data processing services for the bank and commercial markets.

Data processing services include payroll processing, receivable billing and accounting, and customer record keeping systems. Through Central Bank, Centran now is providing fee structured data processing services for more than 300 firms in northeastern Ohio. In mid-1974, Central introduced a remote data processing service designed specifically for banks. The system, called PROFIT, provides computerized accounting and integrates all customer records into an on-line information file. The first bank installation of this system is nearly completed.

Internal efficiency, aimed at increasing profitability, has been a priority objective within our Trust Departments. Central Bank has increased productivity through the utilization of an automated cost accounting system. Also during the year, the department conducted a comprehensive self-analysis study of its operations to identify areas where improvements could be made.

As the economy improves, capital spending will accelerate to meet national demand for increased production capacity. This region, with its concentration of capital and consumer goods manufacturers, will stimulate the growth of domestic and international banking services. Thus, we anticipate that Centran's bank affiliates will continue to make significant contributions to the Corporation's earnings growth objectives.


"I'm a widow. I have a 14-year old boy and a 16-year old girl and they have college ahead..."
Central Bank
Where you get your own personal banker.
How to move into the house of your dreams. Without changing your address.
GET A $100 REBATE FOR FINANCING YOUR NEW CAR THROUGH CENTRAL BANK.
Central Bank
Where you get your own personal banker.
THE FILM FOR THESE PICTURES WAS PURCHASED WITH CENTRAL MASTERCHARGE IN ZURICH, SWITZERLAND.
Central Bank
STOP DOING BUSINESS WITH A BANK. START DOING BUSINESS WITH A
"Alice just discovered a new checking account that won't let us run short of cash..."
Central Bank
Where you get your own personal banker.
SAVE BEYOND YOUR MEANS.
Richland Bank
At last. Saving money can be almost as easy as spending it.
Sutton Bank
The American Bank is now Centran B
You get your own personal banker at Central.
Central Bank
Centran Corporation
Central Bank
Centran Bank
Richland Bank
Sutton Bank
Farmers Bank
7½%
Savings at Central National Bank.
Save beyond your means at Central.
7½%
7%
6½%
6%
5½%
5%
4½%
Central Bank
Where you get your own personal banker.
Rich
7½%
CERTIFICATES OF DEPOSIT
6 YEAR MATURITY — $1000 MINIMUM
I own this home. Sharon and I moved in four kids ago. Now we're ...ping on each other..."
Central Bank
Where you get your own personal banker.
Centran Corporation
Colonial Financial Services
Gordon Financial Services
Major Financial Services
Peoples Financial Services
Protective Financial Services

PERSONAL BANKING

Vast numbers of Americans—the consumers—are acquainted with banks only through the personal banking services provided—checking and savings accounts, installment loans for automobiles and other goods, home mortgages, credit cards, and safe deposit boxes, for example. While the dollars involved in transactions with any single individual may be relatively small in comparison with a commercial banking transaction for a large corporation, personal banking is vital to Centran's total banking activities.

The consumer market is growing, both in size and income. In the aggregate, it provides a sizable base of the demand and time deposits which enable the banking industry to meet the credit requirements of our society.

The consumer market is more difficult to reach and serve than the commercial market. There are large numbers of people spread over wide geographic areas who demand convenience and service. An effective marketing program requires the use of mass media and branch offices strategically located close to where the customer lives, works, or shops. Centran's bank affiliates now maintain 80 branch offices, primarily for personal banking needs.

The escalating cost of branch offices is making it increasingly important to locate new offices strategically and maximize the business volume and profit performance of existing locations. During 1974, research was continued on the development of computer models to forecast business and profit potential of new offices and diagnose market penetration of existing ones. These models are designed to analyze census tract socio-economic data and calculate market share information to provide management with improved information for marketing and financial decision making.

While personal banking implies personal service, the volume and variety of consumer transactions being handled on a daily basis requires the automation of many banking operations and procedures. Centran's affiliates are utilizing computers and other modern equipment to increase efficiency, yet they recognize that the customer still needs an understanding and experienced banker to assist with financial matters. Thus, Central Bank, for example, continues to stress the "Personal Banker" as an overall marketing strategy. An extensive advertising and promotional campaign seeks to sell all of our personal financial services through the Personal Banker. Consumer customers are assigned to a Personal Banker and encouraged to contact him whenever they need assistance with their financial affairs.

Both customers and bank personnel have responded well to this re-emphasis of the personal relationship in banking. Loan customers, in particular, are encouraged by the knowledge that their Personal Banker will give their credit requirements individual attention and understanding.

A significant organizational change was effected during 1974 to improve customer service and internal efficiency in our consumer lending activities. Central Bank combined the administrative responsibilities of the former Installment Loan and Master Charge Departments into a single Consumer Credit Department. In 1975, this department will implement simple interest on installment loans to be calculated daily on the principal amount outstanding. Simple interest facilitates better customer understanding of finance charges.

Consumer lending continues to be marketed aggressively by all bank affiliates. Just recently, the bank group was the first in the nation to offer a $100 rebate on financing charges for new car loans during the month of February. This offer was prompted by the rebates announced by automobile manufacturers and the importance of the automotive industry to the region served by our affiliates. As a result of the loan rebate program, Central Bank, Centran Bank, and our Mid-Ohio group, in total, recorded in excess of a 300 percent increase in approved auto loans over the same period of last year. This program has attracted the attention of national news media and prompted requests for information from banks elsewhere in the nation and Canada who wished to introduce similar rebates.

For the bank affiliates, in total, installment loans outstanding reached $187 million at the end of 1974 as compared with $177 million the previous year.

Centran continues its commitment to the residential mortgage market in the communities served by its 80 banking offices. Although mortgage lending was a problem of national concern throughout 1974, it is anticipated that mortgage lending will increase in 1975 with the rising flow of personal savings into financial institutions and a lower rate of increase in housing construction costs.

The character of the consumer market is rapidly changing with the adoption of new life styles and the development of new technology to serve customers. Thus, Centran's affiliates are researching and planning the innovative programs necessary to ensure our continued growth and profitability in the personal banking field.

CONSUMER FINANCE COMPANIES

With the acquisition of Protective Loan Corporation and Ben Gordon Finance Company, Inc. during the first half of 1974, Centran's group of finance company affiliates now totals five. This group currently operates 45 offices in 14 states.

Earnings of consumer finance companies tend to be counter-cyclical to those of banks because they are sensitive to changes in short-term interest rates. With the cost of money at record levels throughout most of 1974, the earnings of these finance affiliates were adversely impacted. If interest rates continue to decline, the earnings of the finance affiliates should improve.

In the long-run, earnings are, in part, dependent upon the application of sound management techniques. Independently and as a group, the finance company affiliates are continuing to implement systems and procedures to improve efficiency and control of their operations.

During the past year, these affiliates have joined together in utilizing a central computer and network of on-line terminals in their offices for the processing of loan documentation and payments. This technique permits the automatic preparation of daily loan activity reports, monthly payment statistics, and periodic financial reports for managements of the finance companies and Centran.

Although the finance affiliates serve three different sectors of the consumer loan market, their managements are continuing to explore various means by which they can increase cooperation to effect greater efficiency. The standardization of forms, for example, is being studied with the expectation that savings can be achieved through central purchasing.

Included among the finance affiliates is Protective Loan, a consumer lending company specializing in making smaller, short-term loans. Colonial is active in second mortgage lending. It makes larger loans on the equity built up in homes. Peoples, Major, and Gordon specialize in installment loans for the purchase of appliances, automobiles, boats, and similar durable consumer goods.

In addition, Security Capital Leasing, Inc., a subsidiary of Peoples Investment Company, leases a variety of equipment to business and industry throughout the country.

With the acquisition of Ben Gordon and Protective, Centran's consumer finance activity was extended into Texas and New York. During the year, Colonial Financial Service expanded its operations with the opening of offices in Salt Lake City, Utah, and Denver, Pueblo, and Colorado Springs, Colorado.

Through these five companies, Centran now is well established in the consumer finance industry. The affiliates are serving growing markets in the southern and southwestern portions of the country in addition to population centers in the midwestern and eastern United States. Centran will attain increased benefits from these affiliates as the demand for consumer credit expands under more favorable economic conditions.

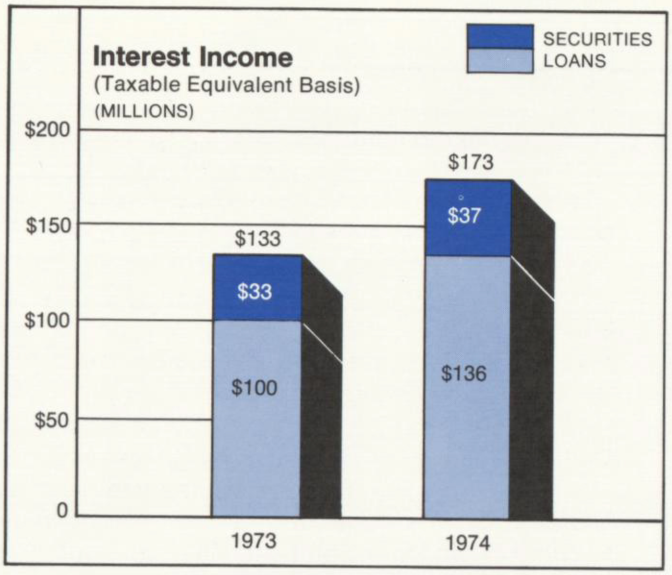


Fig. 1

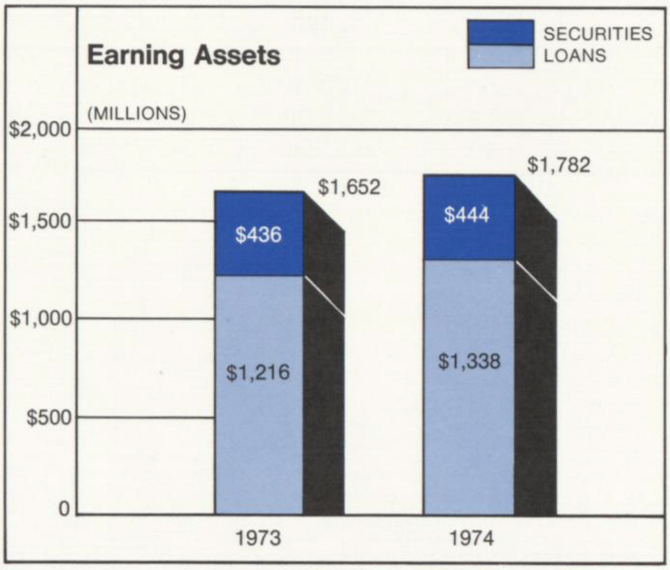


Fig. 2

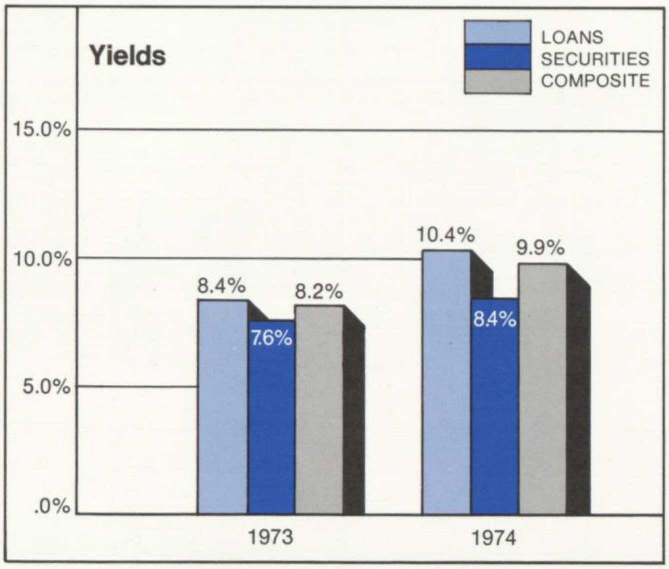


Fig. 3

FINANCIAL REVIEW

The most significant element in the net income of a bank holding company is its interest differential—the excess of interest income derived from earning assets, over interest paid for deposits and other types of funds.

In its annual report for 1973, Centran initiated revisions in the format of its financial statements to highlight this component of earnings. The same presentation has been continued in this 1974 report to provide shareholders, security analysts, and the public with more significant financial data from which to evaluate Centran's operations.

In this commentary, interest income on municipal loans and securities has been converted to a fully taxable equivalent basis to preclude distortions which would otherwise occur.

Interest Differential

Interest income from earning assets totaled $173,178,000 in 1974 and was $39,654,000 or 30% higher than in the preceding year. Of this increase, $12,621,000 resulted from higher investment in earning assets, and $27,033,000 resulted from higher yields on these assets. *(Fig. 1)*

Earning assets averaged $1,781,478,000 and were $130 million or 8% higher than in 1973. The composite yield on these assets rose from 8.17% in 1973 to 9.91% in 1974. *(Fig. 2 and Fig. 3)*

The increase of $130 million in earning assets resulted from increases of $122 million in average loans and $8 million in securities of all classifications. Yields on all types of earning assets were higher than in 1973, with increases in rates on loan classifications generally being higher than those on the various categories of securities.

Interest expense of $97,847,000 for the year was $25,761,000 or 36% higher than in 1973, resulting from higher volumes of interest bearing deposits and borrowings, and from higher rates paid on such funds. *(See Fig. 4)*

The following schedule *(also Fig. 5)* shows the interest differential for 1974 in comparison with that for 1973, both calculated on a fully taxable equivalent basis:

(000 omitted)	1974	1973	Increase	% of Increase
Interest Income	$173,178	$133,524	$ 39,654	29.7%
Interest Expense	97,847	72,086	25,761	35.7
Differential	$ 75,331	$ 61,438	$ 13,893	22.6%

Note: The increase in the interest differential, as shown above on a fully taxable equivalent basis, differs from that reported on the income statement on page 16 by $367,000. This slight difference results from proportionately different tax exempt income as between the two years. Net income is identical,

Continued

Financial Review *(Continued)*

whether determined on a fully taxable equivalent basis as above, or as reported in the income statement on page 16, in the form required by regulatory authorities.

The interest differential expressed as percentages of earning assets is shown below and in *Fig. 6*:

	1974	1973	Increase
Composite Yield	9.91%	8.17%	1.74%
Interest Expense	5.68	4.45	1.23
Interest Rate Differential	4.23%	3.72%	.51%

The increase in the differential in interest rates was a most significant factor in the improvement in the Corporation's earnings in 1974.

Income Other than Interest

Fees for trust services were $3,877,000 for the year, slightly higher than in 1973. Trust fees are based in part on market prices of securities. The depressed market for securities in 1974 adversely affected trust fee income.

Income from all other sources totaled $8,245,000 compared with $7,069,000 in 1973, reflecting an increase of 17%. Principal income accounts combined under this caption are service charges on loan and deposit accounts, data processing services, and fees from international banking services, most of which contributed to the increase of $1,176,000.

Income Net of Interest Expense

Total income, net of interest expense, amounted to $75,437,000 compared with $60,670,000 in 1973, reflecting an increase of $14,767,000 or 24%.

It should be noted that the acquisition of two finance companies in April of 1974 served to increase both income and expense without materially affecting net income. This has resulted in some distortion of the increases in both income and expense.

Operating Expense

Operating expenses for the year totaled $58,910,000, compared with $48,358,000 in the preceding year.

The expense of salaries and employee benefits combined amounted to $27,392,000, and was $4,466,000 higher than in the preceding year. This large increase was a clear reflection of the inflation rampant in 1974, since the number of employees of the Corporation was rigidly controlled, and was only slightly higher than in 1973.

Net occupancy expense of $5,840,000 was up $647,000 for the year. Equipment depreciation, rental and repair rose very slightly from $2,510,000 in 1973 to $2,611,000 in 1974.

The minimum loan loss provision is determined by a five-year, moving average formula prescribed by regulatory authorities. The 1974 provision for loan losses amounted to $5,839,000 and was $1,663,000 higher than in 1973. This resulted from application of the loan loss ratio of the last five years to a substantially larger loan portfolio. The loan loss provision exceeded net loan losses for the year. Under

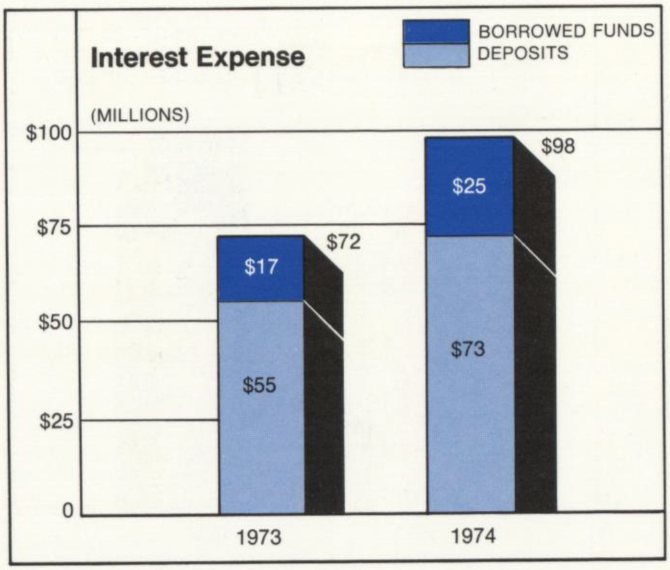


Fig. 4

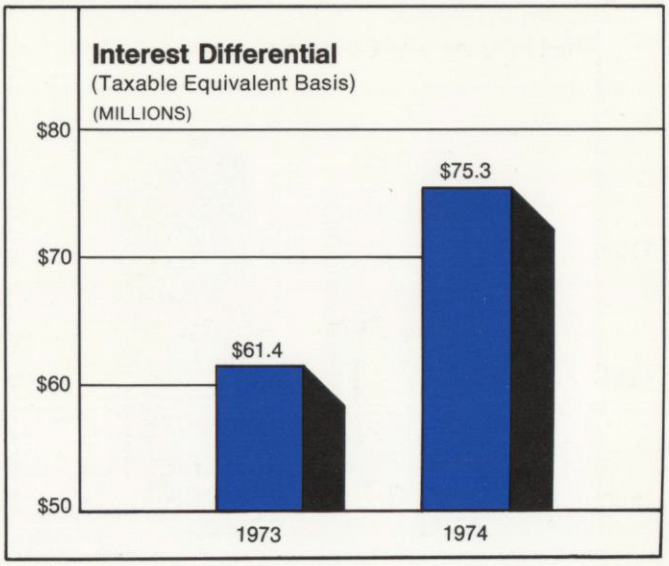


Fig. 5

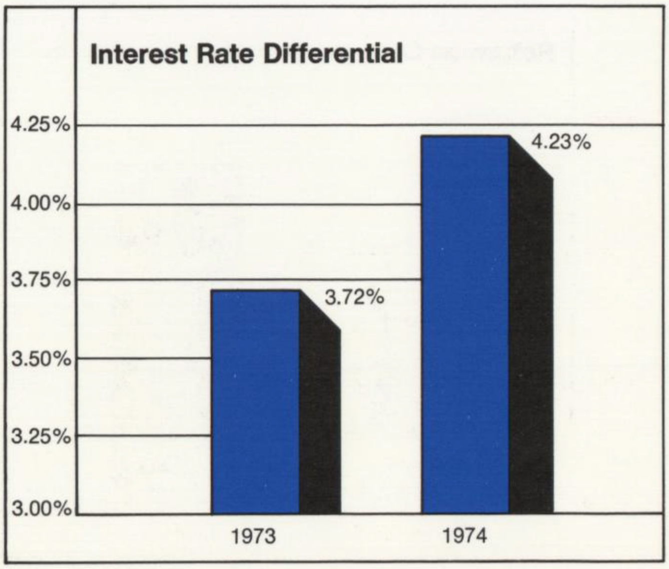


Fig. 6

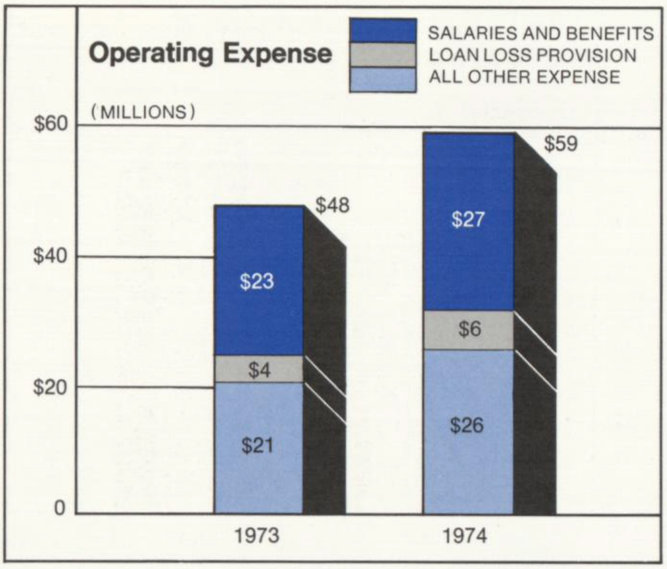


Fig. 7

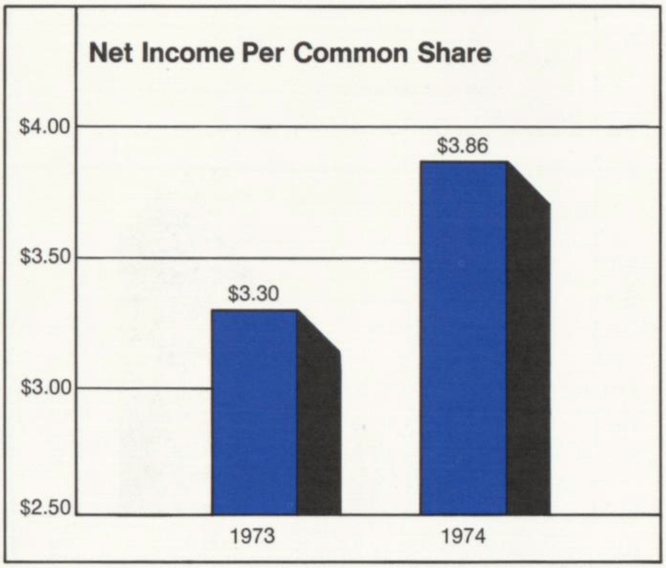


Fig. 8

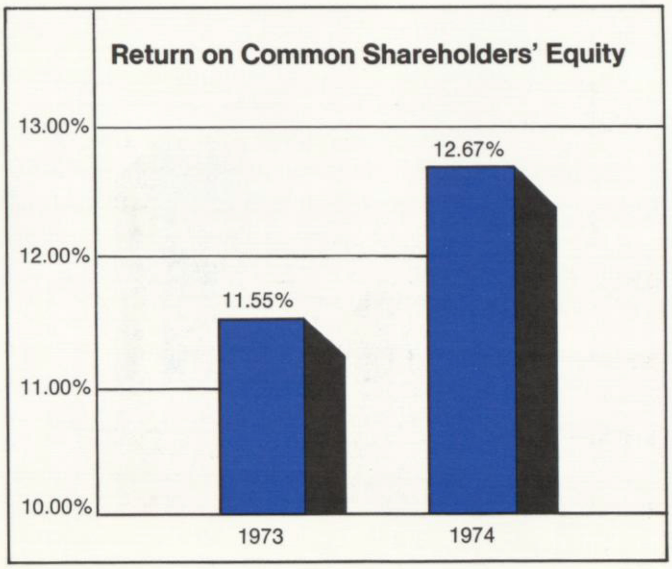


Fig. 9

Financial Review *(Continued)*

a completely different formula, the Internal Revenue Service prescribes allowable deductions for tax purposes and a loan-loss reserve ceiling. Under this formula, the Corporation was able to increase its reserve by $1,198,000 which was effected by charges to retained earnings and deferred taxes in the amounts of $802,000 and $396,000, respectively. *(Fig. 7)*

Miscellaneous expenses, other than those analyzed above, amounted to $17,228,000, compared with $13,553,000 in 1973. This reflected an increase of $3,675,000, or 27%, and resulted in large measure from inflation.

Earnings

Income before income taxes and security transactions was $16,527,000 in 1974 and $12,312,000 in 1973. Income taxes thereon were $1,630,000 in 1974, compared with a tax credit of $170,000 in 1973.

The effective tax rates which may be developed therefrom differ from amounts computed by application of the 48% statutory tax rate to income before taxes, almost entirely because of tax exempt interest on municipal loans and securities. This is shown in the following schedule:

	1974	1973
Income Before Income Taxes and Security Transactions	$16,527,000	$12,312,000
Less Tax-Exempt Interest Income	13,017,000	12,621,000
Income Subject to 48% Tax	$ 3,510,000	$ −309,000
48% Thereof	$ 1,685,000	$ −148,000
Tax Provisions Per Income Statement on Page 16	$ 1,630,000	$ −170,000

The differences between income tax provisions reported for 1973 and 1974, and taxes indicated to be payable by application of the 48% statutory rate to income subject to tax, are negligible.

Income before security transactions was $14,897,000, compared with $12,482,000 in 1973. This was $2,415,000 higher than in the preceding year.

Net income of $14,929,000 was the highest in the Corporation's history and reflected an increase of $2,325,000 over 1973 earnings.

Net income per common share of $3.86 was $.56 or 17% higher than the $3.30 earned in 1973. *(Fig. 8)*

Return on average common shareholders' equity was 12.67% in 1974, compared with 11.55% in 1973. *(See also Fig. 9)*

Dividends declared on preferred and common shares of Centran Corporation totaled $6,631,000 and were equivalent to 44% of net income.

Total shareholders' equity increased from $112,302,000 at year end 1973 to $122,029,000 at December 31, 1974.

Loan loss reserves of bank affiliates were increased from $16,465,000 at December 31, 1973, to $18,626,000 at year end 1974. The ratio of reserves to bank loans, including money market instruments, was 1.39% at year end 1973; 1.44% at year end 1974.

Market and Dividend Information

The common stock of Centran Corporation is traded in the over-the-counter market, and the preferred shares are not traded. The high asked and low bid prices of the common shares, as reported by NASDAQ, and the dividends on such shares for each quarterly period during the past two years were:

Quarter	Dividend	High	Low
First 1973	$.425	29½	26¾
Second 1973	.425	27⅜	23⅞
Third 1973	.425	26¼	23
Fourth 1973	.425	26½	21
First 1974	.425	25	21
Second 1974	.425	23⅛	18
Third 1974	.425	18⅛	16
Fourth 1974	.425	18⅞	14¾

Form 10-K Available to Shareholders

Shareholders may obtain a copy of Form 10-K, filed with the U.S. Securities and Exchange Commission, upon written request to: Mr. Thomas W. Harris, Treasurer, Centran Corporation, 800 Superior Avenue, Cleveland, Ohio 44114. These Forms will be available without charge after March 31, 1975.

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Accountants' Report

Board of Directors
Centran Corporation

We have examined the consolidated balance sheets of Centran Corporation and affiliates as of December 31, 1974, and December 31, 1973, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Centran Corporation and affiliates at December 31, 1974, and December 31, 1973, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
January 27, 1975

Ernst & Ernst

Consolidated Balance Sheets In Thousands of Dollars

Assets	December 31, 1974	December 31, 1973
Earning Assets:		
Commercial Loans	$ 750,991	$ 710,649
Installment Loans	235,774	203,626
Portfolio Mortgage Loans	267,053	256,594
Short-Term Money Market Loans	80,137	43,125
Due from Banks—Time	38,047	29,712
U.S. Treasury Securities	96,800	107,420
Federal Agency Securities	99,398	35,653
State and Municipal Securities	227,448	259,574
Other Securities	9,906	11,438
Trading Account Securities	1,011	16,511
Total Earning Assets	1,806,565	1,674,302
Cash and Due from Banks	261,912	269,704
Premises and Equipment	18,787	18,883
Customers' Liability on Acceptances	46,594	22,331
Other Assets	23,697	29,632
Total Assets	$2,157,555	$2,014,852
Liabilities		
Deposits and Borrowed Funds:		
Demand	$ 641,182	$ 656,438
Savings	380,805	388,730
Certificates—Individuals	277,038	257,925
Certificates—Others	359,927	295,703
Other Time	18,481	17,316
Total Deposits	1,677,433	1,616,112
Borrowed Funds	211,387	169,572
Capital Notes—4.75% due December 1, 1989	20,000	20,000
Debentures—7.85% due May 15, 1997	25,000	25,000
Total Deposits and Borrowed Funds	1,933,820	1,830,684
Liability on Acceptances	46,646	22,331
Other Liabilities	36,434	33,070
Total Liabilities	2,016,900	1,886,085
Reserve for Loan Losses	18,626	16,465
Shareholders' Equity:		
Preferred Stock	2,231	—0—
Common Stock	32,293	32,293
Surplus	64,848	64,798
Retained Earnings	28,339	20,893
Less—Common Stock in Treasury, at Cost	5,682	5,682
Total Shareholders' Equity	122,029	112,302
Total Liabilities, Reserve, and Shareholders' Equity	$2,157,555	$2,014,852

See notes to financial statements.

Consolidated Statements of Income In Thousands of Dollars

	1974	1973
Interest Income:		
Commercial Loans	$ 81,450	$ 54,166
Installment Loans	28,889	20,407
Portfolio Mortgage Loans	18,292	16,712
Short-Term Money Market Loans	6,663	8,043
Due from Banks—Time	3,986	2,015
U.S. Treasury Securities	5,113	6,143
Federal Agency Securities	3,854	1,760
State and Municipal Securities	11,892	11,491
Other Securities	657	675
Trading Account Securities	366	463
Total Interest Income	161,162	121,875
Interest Expense:		
Savings Deposits	16,650	16,397
Certificates—Individuals	18,903	14,317
Certificates—Others	37,302	24,479
Borrowed Funds	22,079	13,980
Capital Notes	950	950
Debentures	1,963	1,963
Total Interest Expense	97,847	72,086
Interest Differential	63,315	49,789
Trust Fees	3,877	3,812
Other Income	8,245	7,069
Income Net of Interest Expense	75,437	60,670
Operating Expense:		
Salaries	23,043	19,496
Pensions, Profit Sharing and Other Employee Benefits	4,349	3,430
Net Occupancy	5,840	5,193
Equipment	2,611	2,510
Provision for Loan Losses	5,839	4,176
Other	17,228	13,553
Total Operating Expense	58,910	48,358
Income Before Income Taxes and Security Transactions	16,527	12,312
Income Taxes Thereon	1,630	(170)
Income Before Security Transactions	14,897	12,482
Security Gains Less Tax of $29 in 1974 and $112 in 1973	32	122
Net Income	$ 14,929	$ 12,604
Per Common Share:		
Income Before Security Transactions	$ 3.85	$ 3.27
Net Income	3.86	3.30

See notes to financial statements.

Consolidated Statements of Changes in Financial Position In Thousands of Dollars

Source of Funds	1974	1973
From Operations:		
Net Income	$ 14,929	$ 12,604
Items Not Using Funds:		
Amortization of Security Premiums	1,357	1,414
Provision for Depreciation and Amortization	1,533	1,551
Provision for Loan Losses	5,839	4,176
Deferred Taxes	977	68
Other	247	79
Total from Operations	24,882	19,892
Increases in Liabilities:		
Deposits	61,321	33,618
Borrowed Funds	31,549	13,519
Liability on Acceptances	24,315	15,003
Other Liabilities	1,736	7,374
Decreases in Assets:		
Securities—Net of Premium Amortization	—0—	21,081
Cash and Due from Banks	9,441	19,136
Other Assets	6,437	—0—
Issuance of Preferred Stock	2,231	—0—
Issuance of Common Stock	—0—	1,165
Total	$161,912	$130,788

Application of Funds		
Increases in Assets:		
Loans Before Net Charge-Offs	$113,908	$ 77,525
Securities—Net of Premium Amortization	5,120	—0—
Due from Banks—Time	8,335	12,075
Customer Liability on Acceptances	24,263	15,094
Other Assets	—0—	7,684
Additions to Premises and Equipment—Net	1,391	1,507
Cash Dividends Declared	6,631	6,503
Purchase of Finance Companies—Loans and Other Assets Acquired Less Borrowed Funds and Other Liabilities Assumed	2,231	10,308
Other	33	92
Total	$161,912	$130,788

See notes to financial statements.

Consolidated Statements of Shareholders' Equity In Thousands of Dollars

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock
Balance at January 1, 1973	$ —0—	$31,930	$63,892	$14,969	$ 5,682
Net Income for the Year				12,604	
Cash Dividends Declared:					
Common Stock $1.70 Per Share				(6,503)	
Transfer to Reserve for Loan Losses				(73)	
Transfer from Retained Earnings to Surplus			104	(104)	
Issuance of 45,352 Shares of Common Stock in Connection with Acquisition		363	802		
Balance at December 31, 1973	—0—	32,293	64,798	20,893	5,682
Net Income for the Year				14,929	
Cash Dividends Declared:					
Series B Preferred Stock $3.92 Per Share				(38)	
Series C Preferred Stock $3.87 Per Share				(70)	
Common Stock $1.70 Per Share				(6,523)	
Transfer to Reserve for Loan Losses				(802)	
Transfer from Retained Earnings to Surplus			50	(50)	
Issuance of 27,848 Shares of Preferred Stock in Connection with Acquisitions	2,231				
Balance at December 31, 1974	$ 2,231	$32,293	$64,848	$28,339	$ 5,682

See notes to financial statements.

Notes to Financial Statements

Accounting Policies.

Consolidation. The consolidated financial statements include the accounts of Centran and all affiliates.

Securities. Investment securities are carried at cost, adjusted for amortization of premiums. Gains or losses on the sale of investment securities are shown separately in the income statement. Trading account securities are carried at the lower of cost or market. Interest on trading account securities is included in interest income and gains or losses are included in other income.

Premises and Equipment. Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are determined primarily by the straight-line method.

Reserve for Loan Losses. For financial reporting purposes, the provision for loan losses of banking affiliates included in operating expense is based on a five-year moving average ratio of net loan losses to average loans outstanding. For income tax purposes, additions to the reserve are made in accordance with federal income tax law. The difference between the amount claimed for tax purposes, net of tax effect adjusted for the 10% minimum tax, and the loan loss provision included in operating expense, is charged to retained earnings. The provision for loan losses of finance company affiliates is based on experience and a current evaluation of their loans; in the consolidated balance sheet these reserves are deducted from the related loans.

Intangibles. Amounts assigned to customer lists and goodwill in connection with acquisitions are amortized by the straight-line method over periods of four years and forty years, respectively.

Income. Interest on loans and securities is recognized in the period in which it is earned by bank affiliates and in the period collected by finance company affiliates; trust fees and income from certain other sources are recognized, for the most part, on a cash collected basis in accordance with industry practice.

Continued

Notes to Financial Statements *(Continued)*

Foreign Exchange. Items comprising the foreign exchange position are valued at current rates of exchange, and related gains or losses are included in other income.

Pension Plans. Pension plans cover substantially all employees and are funded by annual contributions to pension trusts.

Income Taxes. For income tax purposes, certain items of income and expense are reported in taxable years other than those in which such amounts are reported in financial statements. Net income is not affected by this practice, as tax consequences resulting therefrom are reflected in the tax provision. Investment tax credits are accounted for by the flow-through method, and were not material in either year. The effective tax rate developed from the provision for income taxes in the consolidated statement of income, differs from the statutory federal income tax rate of 48% primarily because of tax exempt interest on municipal loans and securities.

Business Combinations. During 1973, Centran acquired two finance companies for a total consideration of $10,308,000. The consideration was $3,628,000 cash, 45,352 shares of common stock, and 6 percent notes totaling $5,514,000 due in installments over a five-year period. Centran has the right to pay 75 percent or less of the notes plus interest thereon in shares of common stock.

During 1974, Centran purchased two finance companies by issuance of 30,148 shares of its serial preferred stock. On January 10, 1975, pursuant to the terms of one of the purchase agreements, 2,300 shares of such preferred stock were returned and cancelled.

These acquisitions were accounted for as purchase transactions. Results of operations of these companies are included in the consolidated statement of income since dates of acquisition. The excess of cost over net tangible assets was assigned to customer lists and goodwill. Had the acquisitions taken place as of January 1, 1973, the effect on Centran's consolidated income statement for 1973 and 1974 would not have been material.

Securities. Securities with a book value of $256,917,000 at December 31, 1974 were pledged to secure trust and public funds on deposit.

The approximate market value of securities was $420,753,000 at December 31, 1974 and $429,200,000 at December 31, 1973. At year-end 1974, the book value of securities was approximately $13,810,000 in excess of market value.

Premises and Equipment

	December 31, 1974	December 31, 1973
Land	$ 3,257,000	$ 3,248,000
Buildings	8,264,000	8,018,000
Leasehold Improvements	9,639,000	9,529,000
Equipment and Furniture	10,780,000	9,583,000
	31,940,000	30,378,000
Less Accumulated Depreciation and Amortization	13,153,000	11,495,000
	$18,787,000	$18,883,000

Borrowed Funds. The caption Borrowed Funds includes the following items:

	December 31, 1974	December 31, 1973
Federal Funds Purchased	$ 65,500,000	$ 54,328,000
Securities and Loans Sold under Agreements to Repurchase	85,369,000	87,718,000
Commercial Paper	19,008,000	936,000
Other Borrowings (Short-term)	34,716,000	17,966,000
Other Borrowings (Long-term)	6,794,000	8,624,000
	$211,387,000	$169,572,000

Debentures. The related indenture provides for annual sinking fund payments of $900,000 to commence in 1982. Under indenture cash dividend restrictions, retained earnings of $26,394,000 were available for cash dividends at December 31, 1974.

Reserve for Loan Losses. An analysis of changes in the reserve for loan losses of bank affiliates follows:

	Valuation	Contingency	Deferred Tax	Total
Balance at January 1, 1973	$11,560,000	$2,478,000	$2,364,000	$16,402,000
Charged to:				
Operating Expense	4,027,000			4,027,000
Retained Earnings		73,000		73,000
Deferred Income Tax			68,000	68,000
Recoveries	597,000			597,000
Loans Charged Off	(4,702,000)			(4,702,000)
Balance at December 31, 1973	11,482,000	2,551,000	2,432,000	16,465,000
Charged to:				
Operating Expense	4,751,000			4,751,000
Retained Earnings		802,000		802,000
Deferred Income Tax			396,000	396,000
Recoveries	573,000			573,000
Loans Charged Off	(4,361,000)			(4,361,000)
Balance at December 31, 1974	$12,445,000	$3,353,000	$2,828,000	$18,626,000

Continued

Capital Stock. The Corporation is authorized to issue 500,000 shares of Serial Preferred Stock, without par value, of which 9,700 shares (after return and cancellation of 2,300 shares on January 10, 1975) designated Series B, and 18,148 shares designated Series C were outstanding at December 31, 1974. The Series B and Series C shares have voting rights and liquidation values of $150.00 and $135.00, respectively, and each share is convertible into three common shares. Each Series B share has a stated value of $85.50, an annual cumulative dividend rate of $5.22, and is redeemable at the option of the shareholder at $150.00 after December 1, 1979. Each Series C share has a stated value of $77.25, an annual cumulative dividend rate of $5.16, and a required redemption at $135.00 on June 1, 1979. The aggregate liquidation value of the Preferred Stock is $1,674,000 over the stated value thereof.

Authorized Common Stock is 7,500,000 shares of $8.00 par value. After deduction of 200,000 shares in treasury there were 3,836,639 common shares outstanding at December 31, 1974 and 1973.

Stock Options. Under the 1973 Stock Option Plan the 200,000 common shares held in treasury are reserved for sale to certain officers of the Corporation or affiliates at a price equal to the fair market value of the shares on the date options are granted. Qualified options expire five years from the date granted, while nonqualified options expire ten years from the date granted. Generally not more than half of the shares granted become exercisable in any one year beginning at the date of grant; however, such options will not become exercisable while there is outstanding an earlier exercisable option to the same optionee carrying a higher option price.

Stock options at $25.25 per share for 30,100 and 33,400 shares, respectively, were outstanding at December 31, 1974 and 1973, of which 22,575 were exercisable at December 31, 1974.

Pension Plans. Pension expense amounted to $834,000 in 1974 and $745,000 in 1973. At December 31, 1974, the value of pension fund assets approximated vested benefits under the plans and past service costs are substantially funded. The effect of the recently enacted Employee Retirement Income Security Act of 1974 on future pension expense, vested benefits and funding has not been determined.

Leases. Rental expense for office space and equipment amounted to $4,033,000 and $3,612,000 in 1974 and 1973, respectively. The future rental commitments as of December 31, 1974 for all noncancelable leases are as follows:

	Office Space	Equipment	Total
1975	$ 2,655,000	$ 536,000	$ 3,191,000
1976	2,543,000	449,000	2,992,000
1977	2,436,000	300,000	2,736,000
1978	2,372,000	15,000	2,387,000
1979	2,301,000	—0—	2,301,000
1980—1984	10,536,000	—0—	10,536,000
1985—1989	9,734,000	—0—	9,734,000
1990—1994	9,052,000	—0—	9,052,000
1995—and later	9,570,000	—0—	9,570,000
	$51,199,000	$1,300,000	$52,499,000

The main office of Central National Bank was leased in 1969 for a 30-year period, with options to renew the lease for two 15-year periods. In addition, the Bank has the option to purchase the building at certain specified times for an amount of not less than the lessor's cost. If the Bank does not exercise its option to purchase by 1999 it shall receive from the lessor a 25 percent interest in the building.

Income per Common Share. Income per common share, after adjustment for preferred dividends, is based on the average number of common shares outstanding.

Commitments and Contingent Liabilities. In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to extend credit, future contracts, guarantees, etc., which are not reflected in the financial statements, including $14,000,000 of standby letters of credit outstanding at December 31, 1974. No material losses are anticipated as a result of these transactions.

Centran and certain affiliates are involved in litigation; however, in the opinion of management, these claims should not have a material effect on the consolidated financial statements.

Management's Discussion and Analysis of the Summary of Operations

Net income for the Corporation rose 3.8% in 1973 and 18.4% in 1974. There follows herewith a brief description of material changes in the components of net income for these years.

Analysis of Changes in Net Income
1972 — 1973

Total interest income on earning assets amounted to $121,875,000 in 1973 and was $30,202,000 higher than in 1972. Of that increase, $12,227,000 resulted from an increase in average holdings of earning assets ($195,351,000), and $17,975,000 resulted from a higher composite yield on such assets (8.17% in 1973 vs 7.11% in 1972 on a fully taxable equivalent basis).

Interest expense on deposits and borrowings was $48,204,000 in 1972 and $72,086,000 in 1973, reflecting an increase of $23,882,000 or 49.5%. Of this amount, $7,083,000 was due to increased volume of funds for which interest was paid, and $16,799,000 resulted from higher rates paid for such funds.

Salary and employee benefit expenses were $2,510,000 or 12.3% higher in 1973 than in 1972. Principal factors causing the increase were merit and cost of living increases in salaries plus related benefits, and additional salary and benefit expenses of finance company acquisitions.

The loan loss provision (determined as outlined in the Notes to Financial Statements) was $4,176,000 in 1973 and $3,009,000 in 1972. Principal factor causing this increase was a higher five-year moving average ratio of net loan losses to average loans, applied to a substantially higher loan portfolio.

The provision for federal income tax on operating earnings declined $420,000 in 1973 largely due to an increase in tax-exempt interest income ($12,621,000 in 1973 vs $11,895,000 in 1972).

All other operating expenses increased $2,448,000, and were 13.0% higher than in 1972. Material increases experienced in some of the expense accounts combined under this caption were: Occupancy—$311,000; Advertising—$328,000, Travel & Entertainment—$221,000; Telephone—$179,000; and Stationery and Printing—$286,000. The many other expense accounts included under this caption were $1,123,000 higher than in 1972, but were not materially increased individually. Many factors combined to cause these increases, including expanded operations of existing affiliates; acquisition of two finance companies and the incorporation of a third; and, most importantly, inflation.

Analysis of Changes in Net Income
1973 — 1974

During 1974, total earning assets averaged $1,781,478,000 and were $130 million higher than in 1973. Most of this increase was in the portfolio loan classification as the Corporation sought to satisfy credit requirements of its customers. The heavy demand for credit in combination with restraints imposed by the Federal Reserve resulted in an increase in the composite yield on the Corporation's earning assets from 8.17% in 1973 to 9.91% in 1974 (rates expressed on a fully taxable equivalent basis). As a consequence, interest income of $161,162,000 was up 32.2% or $39,287,000 as compared with 1973. Of this amount, $9,598,000 resulted from increased earning assets and $29,689,000 from the increase in the composite yield on earning assets.

Interest expense of $97,847,000 paid on deposits and borrowings was $25,761,000 higher than in 1973, of which $7,998,000 was due to increased volume of funds on which interest was paid, and $17,763,000 was due to higher rates paid for such funds.

Other income of $8,245,000 was $1,176,000 higher than in 1973, with material increases in the following sub-classifications: Miscellaneous International Operations—$341,000; Service Charges on Loan and Deposit Accounts—$836,000; and slight changes in other classifications of income.

Salary and employee benefit expenses of $27,392,000 were $4,466,000 or 19.5% higher than in 1973. Major factors causing this increase were merit and cost of living adjustments in salaries plus the salaries of employees added to the Corporation's payrolls through finance company acquisitions, all in combination with increases in employee benefits which resulted therefrom.

The loan loss provision rose from $4,176,000 in 1973 to $5,839,000 in 1974, for much the same reasons as for the 1973 increase—a somewhat higher loan loss ratio applied to a substantially larger loan portfolio.

The provision for federal income tax on operating earnings was $1,800,000 higher than in 1973, entirely due to an increase in income subject to tax.

Continued

Other operating expenses of all classifications totaled $25,679,000 and were $4,423,000 higher than in the preceding year. Material increases occurred in the following categories: Occupancy—$647,000 (Rent portion up $421,000); Advertising—$509,000; Telephone and Telegraph—$297,000; Stationery and Printing—$535,000; Postage—$274,000; and Fees—$767,000. Major factors in these increases were: increased business volume; inflation; and operating expenses of the five finance companies, none of whose operations were included for the full year of 1973.

As can be implied from the summary of operations, profitability of banking organizations very closely follows interest rate differentials. Any attempt to anticipate future profitability must, therefore, involve projections of anticipated yields that may be earned on assets and of rates that may be paid on deposits and borrowings. It is anticipated that in the present recessionary economic environment, interest differentials will decline somewhat, creating downward pressure on profitability of banks. Additionally, the potential impact of larger loan losses may also be a restricting factor for earnings. In light of these considerations, the Corporation's management has implemented policies which will restrict asset growth and improve quality of assets.

Increased operating expenses may also have a significant impact on Corporate earnings. As in the past, management will continue to place heavy emphasis on cost control.

Security Transactions

Transactions in securities, primarily in holdings of municipals, resulted in losses after taxes as follows: 1969—$2,007,000; 1970—$1,401,000; and $643,000 in 1971. None of these losses resulted from enforced liquidation of assets. Funds realized from sales of securities were reinvested in other securities at higher yields. Over the term to maturity, the securities purchased in these reinvestment programs will produce operating interest substantially in excess of losses realized on securities sold.

In the ordinary course of security portfolio management, profits were realized in the subsequent three years: 1972—$423,000; 1973—$122,000; 1974—$32,000.

Loan Portfolio Review

The nation's economy began to deteriorate early in 1974, continuing this course throughout the year and into 1975 at an accelerating pace.

Losses arising from the extension of credit constitute a normal operating expense, characteristic of the business of banks and finance companies. However, in periods of declining business activity, loan losses may be expected to increase. Such conditions dictate to prudent management that increased attention be devoted to analysis and review of loans to identify potential losses and to determine the adequacy of related loan loss reserves.

A thorough review of Centran's loan portfolio has recently been completed, which indicates that, in our judgment, the valuation portion of its reserve for loan losses is adequate to cover all potential loan losses presently foreseen.

No loss has ever been experienced in Short-Term Money Market Loans. At year-end, loans of this classification totaled $80 million, and at this time no loss from these loans is expected.

Losses from Portfolio Mortgage Loans have been negligible for decades and may be expected to continue to be negligible in the foreseeable future in a year-end portfolio totaling $267 million.

Installment loans amounted to $236 million at December 31, 1974. The thousands of loans in this category are individually small in amount. Losses are a normal characteristic of this lending function but are relatively small and are reasonably predictable. Loan losses from installment loans do not involve any undue risk or uncertainty.

Possible losses of any magnitude are thus concentrated in the Commercial Loan classification, which amounted to $751 million last year-end. All loans, material in amount, have been subject to extensive credit review and have been evaluated as to collectibility.

Predictable losses on installment loans together with commercial loans involving some degree of risk and uncertainty, either in whole or in part, are lower in total than the valuation portion of the loan loss reserve.

Six-Year Comparative Summary of Operations In Thousands of Dollars

Consolidated Statements of Income	1974	1973	1972	1971	1970	1969
Interest Income:						
Commercial Loans	$ 81,450	$ 54,166	$ 32,919	$ 31,903	$ 33,494	$ 30,427
Installment Loans	28,889	20,407	17,028	14,873	15,676	13,664
Portfolio Mortgage Loans	18,292	16,712	16,114	10,020	10,190	9,756
Short-Term Money Market Loans	6,663	8,043	3,961	1,935	1,617	1,603
Due from Banks—Time	3,986	2,015	1,401	3,156	4,601	—0—
U.S. Treasury Securities	5,113	6,143	6,073	5,958	6,326	5,750
Federal Agency Securities	3,854	1,760	1,863	609	866	946
State and Municipal Securities	11,892	11,491	11,342	10,417	8,364	7,586
Other Securities	657	675	597	222	204	203
Trading Account Securities	366	463	375	283	—0—	—0—
Total Interest Income	161,162	121,875	91,673	79,376	81,338	69,935
Interest Expense:						
Savings Deposits	16,650	16,397	15,181	12,441	12,396	11,082
Certificates—Individuals	18,903	14,317	11,781	7,948	7,019	6,399
Certificates—Others	37,302	24,479	14,462	16,666	15,675	9,777
Borrowed Funds	22,079	13,980	4,713	3,926	5,749	5,170
Capital Notes	950	950	950	950	950	950
Debentures	1,963	1,963	1,117	—0—	—0—	—0—
Total Interest Expense	97,847	72,086	48,204	41,931	41,789	33,378
Interest Differential	63,315	49,789	43,469	37,445	39,549	36,557
Trust Fees	3,877	3,812	3,641	3,221	2,953	2,844
Other Income	8,245	7,069	7,087	6,638	5,066	5,776
Income Net of Interest Expense	75,437	60,670	54,197	47,304	47,568	45,177
Operating Expense:						
Salaries and Employee Benefits	27,392	22,926	20,416	17,910	17,771	15,538
Provision for Loan Losses	5,839	4,176	3,009	2,364	1,299	655
Other Operating Expenses	25,679	21,256	18,808	15,725	15,253	12,433
Income Taxes	1,630	(170)	250	485	2,096	4,298
Total Operating Expenses	60,540	48,188	42,483	36,484	36,419	32,924
Income Before Security Transactions	14,897	12,482	11,714	10,820	11,149	12,253
Security Transactions After Taxes	32	122	423	(643)	(1,401)	(2,007)
Net Income	$ 14,929	$ 12,604	$ 12,137	$ 10,177	$ 9,748	$ 10,246

Data has been restated to include accounts of affiliates acquired in transactions treated as poolings-of-interests; data of affiliates acquired in purchase transactions is included since dates of acquisitions.

Centran
Corporation

Six-Year Comparative Summary In Thousands of Dollars

	1974	1973	1972	1971	1970	1969
Selected Balance Sheet Averages (a)(g)						
Commercial Loans	$ 775,069	$ 685,042	$ 528,397	$ 471,593	$ 410,507	$ 404,376
Installment Loans	224,395	177,454	149,712	128,535	132,342	122,567
Portfolio Mortgage Loans	262,265	247,886	244,565	152,333	158,266	157,176
Short-Term Money Market Loans	75,970	105,528	93,626	38,974	23,203	19,281
Due from Banks—Time	38,759	22,541	20,402	39,962	50,244	—0—
U.S. Treasury	85,181	111,185	111,320	108,151	105,636	106,934
Federal Agency	53,295	28,342	29,870	11,017	14,502	15,746
State and Municipal	249,406	253,548	257,063	242,902	201,481	205,684
Other	12,098	12,755	14,777	7,161	5,610	4,378
Trading Account	5,040	7,544	6,742	4,651	—0—	—0—
Earning Assets	1,781,478	1,651,825	1,456,474	1,205,279	1,101,791	1,036,142
Total Assets/Liabilities	$2,155,658	$1,968,748	$1,769,048	$1,431,124	$1,305,282	$1,238,277
Demand	$ 613,788	$ 593,283	$ 564,200	$ 482,316	$ 463,093	$ 468,662
Savings	383,829	392,435	389,078	308,534	291,639	296,816
Certificates—Individuals	283,708	250,478	225,788	148,500	132,556	126,336
Certificates—Others	357,907	317,315	273,615	260,989	194,605	148,023
Other Time	14,264	11,404	9,712	5,895	5,918	6,301
Total Deposits	1,653,496	1,564,915	1,462,393	1,206,234	1,087,811	1,046,138
Borrowed Funds	254,487	187,882	117,326	81,607	76,607	63,095
Capital Notes	20,000	20,000	20,000	20,000	20,000	20,000
Debentures	25,000	25,000	14,276	—0—	—0—	—0—
Reserve for Loan Losses	17,722	17,467	16,759	14,588	15,451	15,389
Common Shareholders' Equity	117,015	109,163	106,629	95,923	93,788	88,989

Six-Year Comparative Summary In Thousands of Dollars

	1974	1973	1972	1971	1970	1969
Yields on Assets (b) (c)						
Commercial Loans	10.87%	8.10%	6.33%	6.87%	8.30%	7.66%
Installment Loans	12.87	11.50	11.37	11.57	11.85	11.15
Portfolio Mortgage Loans	6.97	6.74	6.59	6.58	6.44	6.21
Short-Term Money Market Loans	10.56	8.69	4.81	4.96	6.97	8.31
Due from Banks—Time	10.32	9.17	5.52	7.90	9.16	—0—
U.S. Treasury Securities	6.00	5.53	5.46	5.51	5.99	5.38
Federal Agency Securities	7.23	6.21	6.24	5.53	5.97	6.01
State and Municipal Securities	9.17	8.72	8.49	8.25	8.17	7.81
Other Securities	6.82	5.29	5.91	3.10	3.64	4.64
Trading Account Securities	7.72	6.28	5.80	6.08	—0—	—0—
Composite Yield	9.91	8.17	7.11	7.42	8.17	7.62
Effective Interest Rates Paid (c)						
Savings Deposits	4.34%	4.18%	3.90%	4.03%	4.25%	3.73%
Certificates—Individuals	6.66	5.72	5.22	5.35	5.30	5.07
Certificates—Others	10.42	7.73	5.29	6.39	8.05	6.61
Borrowed Funds	9.96	8.17	4.48	4.81	7.50	8.19
Capital Notes	4.75	4.75	4.75	4.75	4.75	4.75
Debentures	7.85	7.85	7.85	—0—	—0—	—0—
Composite Rate Paid	7.55	6.10	4.64	5.08	5.79	5.05
Interest Rate Differential (b)	4.23%	3.72%	3.77%	3.94%	4.38%	4.40%
Ratios (c)						
Operating Income/Gross Income	8.60%	9.40%	11.44%	12.13%	12.48%	15.60%
Return on Common Shareholders' Equity	12.67	11.55	11.38	10.61	10.39	11.51
Loans as a % of Assets	62.06	61.76	57.45	55.30	55.49	56.80
Common Shareholders' Equity as a % of Assets	5.43	5.54	6.03	6.70	7.19	7.19
Percent of Net Income to Total Assets	.693	.640	.686	.711	.747	.827
Per Common Share						
Income Before Security Transactions (d)	$ 3.85	$ 3.27	$ 2.98	$ 2.92	$ 3.01	$ 3.31
Net Income (d)	3.86	3.30	3.09	2.75	2.63	2.77
Dividends (e)	1.70	1.70	1.70	1.60	1.53	1.33
Book Value at Year-End (f)	31.22	29.27	27.72	26.30	25.66	24.77
Average Shares Outstanding	3,836,639	3,815,640	3,930,547	3,706,160	3,703,359	3,701,980

(a) Data has been restated to include accounts of affiliates acquired in transactions treated as poolings-of-interests; data of affiliates acquired in purchase transactions is included since dates of acquisitions.

(b) Stated on a fully taxable equivalent basis.

(c) Based on average balances.

(d) Based on average number of shares outstanding adjusted for stock split and income net of dividends on preferred stock.

(e) Adjusted for three for two stock split May, 1970. Prior to 1972 dividends reported are those of Central National Bank of Cleveland.

(f) Based on number of shares outstanding at year-ends adjusted for stock split.

(g) Inter-company accounts not eliminated.

Affiliates' Balance Sheets In Thousands of Dollars

December 31, 1974

	BANK AFFILIATES				
	Central National Bank	*Centran Bank of Akron*	*Richland Trust*	*Farmers and Savings Bank*	*Sutton State Bank*
Assets					
Earning Assets:					
Commercial Loans	$ 697,766	$ 28,235	$19,682	$ 3,133	$ 2,174
Installment Loans	144,357	29,042	11,438	1,548	1,068
Portfolio Mortgage Loans	154,693	75,943	27,018	5,846	3,555
Short-Term Money Market Loans	80,137	5,000	2,900	2,500	300
Due from Banks—Time	38,022	—0—	—0—	—0—	—0—
U.S. Treasury Securities	70,200	12,216	9,879	2,396	2,109
Federal Agency Securities	89,919	8,979	500	—0—	—0—
State and Municipal Securities	190,095	17,204	14,788	3,663	1,698
Other Securities	5,074	4,633	—0—	—0—	—0—
Trading Account Securities	1,011	—0—	—0—	—0—	—0—
Total Earning Assets	1,471,274	181,252	86,205	19,086	10,904
Cash and Due from Banks	246,761	6,653	6,111	861	279
Premises and Equipment	12,657	3,600	1,668	469	91
Customers' Liability on Acceptances	46,594	—0—	—0—	—0—	—0—
Other Assets	13,083	1,904	1,428	157	132
Total Assets	$1,790,369	$193,409	$95,412	$20,573	$11,406
Liabilities					
Deposits	$1,395,484	$171,869	$82,987	$18,662	$10,361
Borrowed Funds	173,047	950	3,577	—0—	—0—
Capital Notes—4.75% due Dec. 1, 1989	20,000	—0—	—0—	—0—	—0—
Liability on Acceptances	46,646	—0—	—0—	—0—	—0—
Other Liabilities	30,333	1,436	662	261	106
Total Liabilities	1,665,510	174,255	87,226	18,923	10,467
Reserve for Loan Losses	16,729	564	1,030	182	121
General Reserve	—0—	8,547	—0—	—0—	—0—
Shareholders' Equity:					
Common Stock	26,797	4,473	1,457	300	146
Surplus	55,204	4,527	4,543	700	454
Retained Earnings	26,129	1,043	1,156	468	218
Total Shareholders' Equity	108,130	10,043	7,156	1,468	818
Total Liabilities, Reserve, and Shareholders' Equity	$1,790,369	$193,409	$95,412	$20,573	$11,406

Affiliates' Balance Sheets In Thousands of Dollars

December 31, 1974

	FINANCE COMPANY AFFILIATES				
	Ben Gordon Finance Company	*Colonial Financial Service*	*Major Finance Corp.*	*Peoples Investment Co.*	*Protective Loan Corp.*
Assets					
Earning Assets:					
Installment Loans	$ 4,111	$ 8,136	$ 9,170	$20,162	$ 6,742
Other Loans	—0—	—0—	—0—	4,412	—0—
Other Securities	198	25	—0—	—0—	—0—
Total Earning Assets	4,309	8,161	9,170	24,574	6,742
Cash and Due from Banks	602	31	610	803	1,078
Premises and Equipment	19	70	96	43	74
Other Assets	371	1	401	4,533	424
Total Assets	$ 5,301	$ 8,263	$10,277	$29,953	$ 8,318
Liabilities					
Borrowed Funds	$ 4,064	$ 8,509	$ 7,478	$21,582	$ 6,968
Other Liabilities	505	250	763	1,462	124
Shareholder's Equity	732	(496)	2,036	6,909	1,226
Total Liabilities and Shareholder's Equity	$ 5,301	$ 8,263	$10,277	$29,953	$ 8,318

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Officers

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Chairman, President, and Chief Executive, Central National Bank of Cleveland; President, Central Cleveland International Bank

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Executive Vice President, Central National Bank of Cleveland; Vice President, Central Cleveland International Bank

Thomas W. Harris—*Treasurer*
Senior Vice President and Controller, Central National Bank of Cleveland; Treasurer, Central Cleveland International Bank

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Vice President, The Richland Trust Company; President, Ben Gordon Finance Company, Inc.

Hubert P. Martin—*Secretary*
Vice President and Counsel, Central National Bank of Cleveland; Secretary, Central Cleveland International Bank

Richard H. Braucher—*Assistant Secretary*
Associate Counsel and Secretary, Central National Bank of Cleveland

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Chairman and President

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Harry T. Marks
Chairman of the Board and Chief Executive Officer, Ferro Corporation, a diversified, multinational manufacturer of specialty materials for industry.

Robert D. McCreery
President, H. L. McCreery and Son, Inc., industrial distributor.

Thomas A. Quintrell
Partner, Arter & Hadden, Attorneys at Law.

Karl H. Rudolph
President and Chief Executive, The Cleveland Electric Illuminating Co., electric utility.

Donald G. Stevens
Senior Vice President, The Standard Oil Company (Ohio), integrated oil company.

Arthur B. Tillman
Former Senior Vice President, Diamond Shamrock Corporation, manufacturer of chemicals and resins, and producer and refiner of national gas and oil.

Centran Corporation — Affiliates and Associations

Commercial Bank Affiliates

Central National Bank of Cleveland
800 Superior Avenue; Cleveland, Ohio 44114
John A. Gelbach, Chairman and Chief Executive
Charles S. Lawrence, III, Executive Vice President

Senior Vice Presidents:
Robert C. Bensing
Alan G. Brant
Russell H. Eichman
William E. Flack
Thomas W. Harris
Frederick Lynch, Jr.
John M. McEwan
A. W. Redmon
Jack C. Rothwell
I. Barry Thompson

Centran Bank of Akron
157 South Main Street; Akron, Ohio 44308
John B. McCarter, Chairman and Chief Executive
Gerald M. Foley, President

Vice Presidents:
James R. Bray
L. T. Buttermore
William H. Evans III
Philip M. Hamilton
Charles E. Lewis
William T. Moore
Henry L. Palombo
William H. Parmelee
Malcolm Rowan
John W. Wressell

The Richland Trust Company
3 North Main Street; Mansfield, Ohio 44901
J. H. Beasore, President and Chief Executive

Senior Vice Presidents:
S. A. Foltz
Donn A. Kieft
G. W. Sennish, Jr.

Vice Presidents:
Richard L. Adams
W. R. McCullough
Harlan McDaid
Jesse T. Mickley
Gordon J. Sevold
Joseph O. Weirick
D. Eugene Yarger

The Farmers & Savings Bank
120 North Water Street; Loudonville, Ohio 44842
R. E. Arnholt, President
James W. Koch and Stanley D. Young, Vice Presidents

The Sutton State Bank
1 South Main Street; Attica, Ohio 44807
J. V. Ayres, Chairman
A. J. Sutton, President

(Affiliate banks are members of Federal Deposit Insurance Corporation)

Consumer Finance Affiliates

Ben Gordon Finance Company, Inc.
9039 Katy Freeway; Houston, Texas 77024
Gordon J. Sevold, President

Colonial Financial Service, Inc.
Bank for Savings Building; Birmingham, Alabama 35203
Robert Brannon, President

Major Finance Corporation
Montgomery Center Building;
8630 Fenton Street; Silver Spring, Maryland 20910
Morton Sturt, President

Peoples Investment Company
4th & Market Streets; Louisville, Kentucky 40202
Harry J. Klein, Chairman
J. William Frentz, President

Protective Loan Corporation
41 State Street; Albany, New York 12207
Alford E. Freedman, President

International Facilities and Associations

Central Cleveland International Bank
55 Broad Street; New York, New York 10004
Telex: 12-7779 Centralint

Paris Representative Office
33, rue Galilee 75016 Paris, France
Telex: 62615 Paris

London Representative Office
Grocers Hall; Princes Street EC2R; London, England
Telex: 885664 Centran London

Mexico City Representative Office
Paseo de la Reforma 292-501; Mexico 6, D.F., Mexico
Telex: 017-75-722

Nassau Branch
P.O. Box 7768; The Bahamas

Associations with:
Banque Occidentale pour l'Industrie
et le Commerce
Paris, France

Deltec Pan-America, Ltd.

Private Export Financing Corporation (PEFCO)

(Plus a world-wide network of correspondent banks)

Centran
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800 Superior Avenue
Cleveland, Ohio 44114

PRINTED IN U.S.A.